

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SEPTEMBER 30, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SEPTEMBER 30, 2008

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October 29, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mecosta Osceola Transit Authority
Big Rapids, Michigan

We have audited the accompanying financial statements of the business-type activities of the Mecosta Osceola Transit Authority, as of and for the year ended September 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Mecosta Osceola Transit Authority, as of September 30, 2008, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Mecosta Osceola Transit Authority, Big Rapids, Michigan's basic financial statements. The accompanying information listed as supporting schedules and statistical tables in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Mecosta Osceola Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MECOSTA OSCEOLA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2008

This section of the Authority's Comprehensive Annual Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2008. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2008, by \$877,062. Of this amount, \$490,328 represents net assets which are invested in capital assets.
- The Authority's total net assets increased by \$17,019.
- The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Financial Analysis

The following is a summary of the Authority's net assets.

Summary Statement of Net Assets

	<u>2008</u>	<u>2007</u>
Assets:		
Current Assets	\$ 453,083	\$ 335,634
Capital Assets (Net)	490,328	555,170
Total Assets	<u>\$ 943,411</u>	<u>\$ 890,804</u>
Liabilities:		
Current Liabilities	\$ 66,349	\$ 30,761
Net Assets:		
Invested in Capital Assets	490,328	555,170
Unrestricted	386,734	304,873
Total Liabilities and Net Assets	<u>\$ 943,411</u>	<u>\$ 890,804</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2008

In 2008, the Authority's net assets increased by \$17,019. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets which show how the \$17,019 increase in net assets occurred. Also shown is the change for the year ended September 30, 2007.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Operating Revenue	\$ 234,858	\$ 228,032
Operating Expense	<u>700,414</u>	<u>647,664</u>
Operating Loss	<u>(465,556)</u>	<u>(419,632)</u>
Nonoperating Revenue		
State Sources	302,604	282,282
Federal Sources	103,160	103,574
Other Nonoperating Revenue	<u>6,022</u>	<u>2,269</u>
Total Nonoperating Revenue	<u>411,786</u>	<u>388,125</u>
Income (Loss) Before Capital Contributions	(53,770)	(31,507)
Capital Contributions	<u>70,789</u>	<u>20,288</u>
Changes in Net Assets	<u><u>\$ 17,019</u></u>	<u><u>\$ (11,219)</u></u>

Operating Revenues

	<u>2008</u>	<u>2007</u>
<u>REVENUES</u>	<u>AMOUNT</u>	<u>AMOUNT</u>
Operating Revenue	\$ 234,858	\$ 228,032
Other Income	6,022	2,269
Federal Assistance	103,255	103,574
State Assistance	<u>302,509</u>	<u>282,282</u>
Total Revenue	<u><u>\$ 646,644</u></u>	<u><u>\$ 616,157</u></u>

The State reimbursement rate decreased from 38.6208% to 36.1508%.

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2008

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

Operations - Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

<u>DEPARTMENT</u>	2008 <u>AMOUNT</u>	2007 <u>AMOUNT</u>
Operations	\$ 404,308	\$ 334,363
Maintenance	65,069	56,332
Administration	94,872	94,679
Depreciation	<u>136,165</u>	<u>162,290</u>
Total Expenses	<u>\$ 700,414</u>	<u>\$ 647,664</u>

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2008 compared to 2007 by object:

<u>OBJECT</u>	2008 <u>AMOUNT</u>	2007 <u>AMOUNT</u>
Wages and Benefits	\$ 339,430	\$ 302,752
Services	63,547	43,444
Supplies and Materials	112,590	83,943
Utilities	16,742	15,373
Casualty and Liability	17,217	23,985
Miscellaneous	14,723	15,877
Depreciation	<u>136,165</u>	<u>162,290</u>
Total	<u>\$ 700,414</u>	<u>\$ 647,664</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2008

Capital Assets

The Authority's investment in capital assets as of September 30, 2008, amounted to \$490,328 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Net capital assets decreased by \$64,842 during the year. Depreciation expense totaled \$136,165. Major capital asset acquisitions during 2008 included building improvements of \$1,200 and buses and vehicles of \$70,123 totaling \$71,323.

Economic Factors and Future Outlook

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance grants will be funded.

As with other employers, the Authority continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Mecosta Osceola Transit Authority, 18710 16 Mile Road, Big Rapids, Michigan 49307.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF NET ASSETS

SEPTEMBER 30,

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 357,384	\$ 154,630
Accounts Receivable	39,573	16,884
Accrued Interest Receivable	647	0
Due from Other Governments	24,745	133,005
Prepaid Expense	3,678	4,252
Inventory	27,056	26,863
Total Current Assets	453,083	335,634
<u>PROPERTY AND EQUIPMENT</u>		
Land and Building	566,680	565,480
Buses and Other Vehicles	1,108,720	1,038,597
Bus and Garage Equipment	61,387	61,387
Office Equipment	151,713	151,713
	1,888,500	1,817,177
Less Accumulated Depreciation	1,398,172	1,262,007
Net Property and Equipment	490,328	555,170
TOTAL ASSETS	\$ 943,411	\$ 890,804
<u>LIABILITIES</u>		
Accounts Payable	\$ 40,752	\$ 11,759
Accrued Liabilities		
Payroll Withholdings	2,546	0
Salaries and Wages	1,763	0
Compensated Absences	21,288	19,002
Total Liabilities	66,349	30,761
<u>NET ASSETS</u>		
Invested in Capital Assets	490,328	555,170
Unrestricted	386,734	304,873
Total Net Assets	877,062	860,043
TOTAL LIABILITIES AND NET ASSETS	\$ 943,411	\$ 890,804

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2008</u>	<u>2007</u>
<u>OPERATING REVENUES</u>	\$ 234,858	\$ 228,032
<u>OPERATING EXPENSES</u>	<u>700,414</u>	<u>647,664</u>
Operating Income (Loss)	(465,556)	(419,632)
<u>NONOPERATING REVENUES</u>	<u>411,786</u>	<u>388,125</u>
Income (Loss) before Capital Contributions	<u>(53,770)</u>	<u>(31,507)</u>
<u>CAPITAL CONTRIBUTIONS</u>		
Federal Financial Assistance	56,631	16,231
State of Michigan	<u>14,158</u>	<u>4,057</u>
Total Capital Contributions	<u>70,789</u>	<u>20,288</u>
Change in Net Assets	17,019	(11,219)
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>860,043</u>	<u>871,262</u>
<u>TOTAL NET ASSETS - End of Year</u>	<u>\$ 877,062</u>	<u>\$ 860,043</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2008</u>	<u>2007</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 212,169	\$ 242,123
Cash Payments to Suppliers for Goods and Services	(383,164)	(425,527)
Cash Payments to Employees for Services	(145,116)	(134,360)
	<u>(316,111)</u>	<u>(317,764)</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Noncapital Financing Activities:		
Net Job Access Reverse Commute Grant Received	19,159	9,638
Net Section 5304 Grants Received	0	10,383
Net State Operating Grants Received	395,406	286,200
Net Federal Operating Grants Received	79,171	92,497
	<u>493,736</u>	<u>398,718</u>
Net Cash Provided by Noncapital Financing Activities		
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(71,323)	(20,288)
Proceeds from Sale of Capital Assets	0	2,031
Capital Grants Received	91,077	306
	<u>19,754</u>	<u>(17,951)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities		
Cash Flows from Investing Activities:		
Interest Received	5,375	238
	<u>5,375</u>	<u>238</u>
Net Increase (Decrease) in Cash and Cash Equivalents	202,754	63,241
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>154,630</u>	<u>91,389</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u>\$ 357,384</u>	<u>\$ 154,630</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2008</u>	<u>2007</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	<u>\$ (465,556)</u>	<u>\$ (419,632)</u>
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	136,165	162,290
(Increase) Decrease in Current Assets		
Accounts Receivable	(22,689)	638
Prepaid Expense	574	1,014
Inventory	(193)	(13,757)
Increase (Decrease) in Current Liabilities		
Accounts Payable	28,993	(36,707)
Accrued Liabilities	<u>6,595</u>	<u>(11,610)</u>
Total Adjustments	<u>149,445</u>	<u>101,868</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ (316,111)</u></u>	<u><u>\$ (317,764)</u></u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mecosta Osceola Transit Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

The Transit Authority has the capability and authority to provide public transportation to the general public in Mecosta and Osceola Counties.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

D. Assets, Liabilities and Equity

1. Deposits and Investments

The cash and cash equivalents of Mecosta Osceola Transit Authority are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Authority's investment policy is in compliance with state law and authorizes the Authority to invest in investments authorized by Act 20 of the Public Acts of Michigan of 1943, as amended, provided however, any investment in mutual funds authorized by Act 20 shall be limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. Capital Assets and Depreciation

Capital assets are defined by the transit authority as assets with an initial, individual cost of more than \$5,000, except for assets purchased with Federal and/or State grants, which are capitalized regardless of the amount and an estimated useful life in excess of one year. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by the Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

The eligible depreciation of \$3,952 (\$136,165 total depreciation less ineligible depreciation of \$132,213). Eligible depreciation includes only depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the Bureau of Passenger Transportation.

3. Inventory and Prepaid Items

Inventories of motor vehicle fuel and vehicle parts are valued at cost on the first-in, first-out method. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

4. Compensated Absences

The Authority accrues sick and vacation benefits in the period they are earned. Vacation leave is earned in varying amounts depending on the number of years of service of an employee. At September 30, 2008 and 2007, the sick and vacation benefits accrued was \$21,288 and \$19,002, respectively.

5. Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

II. DETAILED NOTES ON FUND

A. Property and Equipment

A summary of changes in the Authority's capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 8,500	\$ 0	\$ 0	\$ 8,500
Capital assets, being depreciated				
Buildings	556,980	1,200	0	558,180
Buses and Other Vehicles	1,038,597	70,123	0	1,108,720
Bus and Garage Equipment	61,387	0	0	61,387
Office Equipment	151,713	0	0	151,713
Total capital assets, being depreciated	1,808,677	71,323	0	1,880,000

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	398,103	24,067	0	422,170
Buses and Other Vehicles	661,722	106,400	0	768,122
Bus and Garage Equipment	59,295	2,041	0	61,336
Office Equipment	142,887	3,657	0	146,544
Total accumulated depreciation	1,262,007	136,165	0	1,398,172
Total capital assets, being depreciated, net	546,670	(64,842)	0	481,828
Business-type activities capital assets, net	\$ 555,170	\$ (64,842)	\$ 0	\$ 490,328

Major classes of property and equipment consist of the following:

	Purchased With Authority Funds	Purchased With Capital Grants	Total
Land and Buildings	\$ 134,071	\$ 432,609	\$ 566,680
Buses and Other Vehicles	41,318	1,067,402	1,108,720
Bus and Garage Equipment	17,846	43,541	61,387
Office Equipment	23,361	128,352	151,713
	216,596	1,671,904	1,888,500
Less Accumulated Depreciation	(205,385)	(1,192,787)	(1,398,172)
Net Property and Equipment	\$ 11,211	\$ 479,117	\$ 490,328

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

B. Deposits and Investments

Investment rate risk. The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Authority's cash requirement.

Foreign currency risk. The Authority is not authorized to invest in investments, which have this type of risk.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Credit risk. The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

Concentration of credit risk. The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2008, the Authority's deposits were \$357,384 and the bank balance was \$366,480, of which \$311,607 was covered by federal depository insurance and \$54,873 was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At year end the Authority held no investments.

C. Receivables

Receivables as of year end for the Authority are as follows:

Receivables	
Accounts	\$ 39,573
Intergovernmental	<u>24,745</u>
 Total Receivables	 <u><u>\$ 64,318</u></u>

The allowance for doubtful accounts is not considered to be material for disclosure.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

D. Contingencies

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2006 through 2008, either have not commenced or have not been completed.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Concentration of Credit Risk

For the fiscal year ended September 30, 2008, the reimbursement rate by the State of Michigan was 36.1508% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage may be recalculated after total eligible expenses for all transits are determined based on audited figures.

G. Risk Management

The Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Transit carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Transit is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Transit pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Transit would receive a pro rata assessment for their share of the loss. During the years ended September 30, 2008 and 2007, there was an increase of \$16,586 and a decrease of \$24,688 in the premium previously charged by the risk pool. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

H. Lease Agreement

In April 2006, the Authority entered into a five-year lease agreement for a Xerox copier. The agreement calls for monthly payments of \$69. The lease expense for the year ended September 30, 2008, and 2007 was \$822 and \$822, respectively. Future minimum lease payments are as follows:

2008-2009	\$ 822
2009-2010	822
2010-2011	548
	<hr/>
	\$ 2,192
	<hr/>

I. Cost Allocation Plans

The Transit Authority has two cost allocation plans where the methodology has been approved by the BPT. Those cost allocations are for nonurban service and job access reverse commute. These cost allocations plans were adhered to in the preparation of the financial statements.

J. Explanation of Ineligible Expenses Per the BPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. The Transit did not incur expenses associated with 40615 Advertising revenue and, therefore, no expenses are subtracted out as ineligible on the Schedule of Net Eligible Costs.

K. Nonfinancial Data

The methodology used for compiling mileage on the Schedule of Mileage Data is an adequate and reliable method for recording vehicle mileage.

L. Contingencies

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the transit agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the transit agency expects such amounts, if any, to be immaterial.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

COMPARATIVE SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2008</u>	<u>2007</u>
<u>OPERATING REVENUES</u>		
Demand Response (Farebox)	\$ 26,013	\$ 26,893
Contract Services	206,479	195,565
Package Fares	496	208
Non-Transportation Revenue	1,422	818
Other Revenue	448	4,548
	<hr/>	<hr/>
Total Operating Revenues	<u>\$ 234,858</u>	<u>\$ 228,032</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Operator's Salaries and Wages	\$ 151,711	\$ 0	\$ 0	\$ 151,711
Other Salaries and Wages	38,794	9,540	48,088	96,422
Fringe Benefits				
FICA	14,810	450	3,412	18,672
Group Insurance	62,855	56	2,757	65,668
Workers' Compensation	4,552	60	60	4,672
Uniforms and Other	1,516	602	167	2,285
Services				
Professional	0	0	8,712	8,712
Maintenance	1,428	52,282	0	53,710
Other Services	0	0	1,125	1,125
Materials and Supplies Consumed				
Fuel and Lubricants	88,954	0	0	88,954
Tires and Tubes	2,921	0	0	2,921
Other Materials and Supplies	12,889	2,079	5,747	20,715
Utilities and Telephone	0	0	16,742	16,742
Casualty and Liability Costs	17,217	0	0	17,217
Miscellaneous Expenses				
Miscellaneous	0	0	1,471	1,471
Advertising/Promotion Media	6,436	0	0	6,436
Dues and Subscriptions	0	0	1,162	1,162
Travel and Meetings	225	0	5,429	5,654
Depreciation	130,466	2,041	3,658	136,165
	<u>\$ 534,774</u>	<u>\$ 67,110</u>	<u>\$ 98,530</u>	<u>\$ 700,414</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

COMPARATIVE SCHEDULE OF NONOPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2008</u>	<u>2007</u>
<u>STATE SOURCES</u>		
State of Michigan Operating Grants		
Local Bus Operating Assistance		
Prior Years Adjustment	\$ (2,638)	\$ 1,220
2007	0	271,439
2008	286,434	0
Section 5304 Feasibility Study	0	2,077
Job Access and Reverse Commute Program	18,713	7,546
	<hr/>	<hr/>
Total State Sources	302,509	282,282
	<hr/>	<hr/>
<u>FEDERAL SOURCES</u>		
U.S. Department of Transportation		
Operating Grant - Section 5311		
Prior Years Adjustment	(1,735)	7,751
Contract No. 07-0257/Z2	0	77,807
Contract No. 07-0257/Z5	83,248	0
Section 5304 Feasibility Study	0	8,306
Job Access and Reverse Commute Program	19,849	7,546
Rural Transit Assistance Program	1,893	2,164
	<hr/>	<hr/>
Total Federal Sources	103,255	103,574
	<hr/>	<hr/>
<u>OTHER</u>		
Interest Income	6,022	238
Gain on Sale of Assets	0	2,031
	<hr/>	<hr/>
Total Other Sources	6,022	2,269
	<hr/>	<hr/>
TOTAL NONOPERATING REVENUES	\$ 411,786	\$ 388,125
	<hr/>	<hr/>

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE GRANTS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal and State Grantor/Pass-Through	Federal DFDA Number	Grant Number	Program Award Amount	Current Year Expenditures			Prior Year Expenditures	Award Amount Remaining
				Total	Federal	State		
Passed Through Michigan Department of Transportation								
Operating Assistance - Section 5311	20.509	07-0257/Z5	\$ 80,496	\$ 83,248	\$ 83,248	\$ 0	\$ 0	\$ 0
Rural Transit Assistance Program (RTAP)	20.509	N/A	1,893	1,893	1,893	0	0	0
Federal Transit Capital Grants	20.500	06-0058/Z6	25,000	23,215	18,572	4,643	0	0
Federal Transit Capital Grants	20.500	06-0058/Z7	31,250	23,159	18,527	4,632	0	8,091
Federal Transit Capital Grants	20.500	07-0257/Z3	31,250	24,415	19,532	4,883	0	6,835
Federal Section 5316		07-0257/Z6	39,170	38,562	19,754	18,808	0	0
Michigan Department of Transportation								
Non Urban Operating Assistance - Act 51	N/A	N/A	\$286,434	286,434	0	286,434	0	0
				<u>\$ 495,493</u>	<u>\$ 480,926</u>	<u>\$ 161,526</u>	<u>\$ 319,400</u>	<u>\$ 0 \$ 14,926</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SCHEDULE OF DUE FROM OTHER GOVERNMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>OPERATING ASSISTANCE</u>	<u>DUE FROM (TO) STATE 10/1/2007</u>	<u>ADJUSTMENTS</u>	<u>EARNED</u>	<u>RECEIVED NET OF (REPAYMENTS)</u>	<u>DUE FROM (TO) STATE 9/30/2008</u>
State Operating Assistance					
2004	\$ 0	\$ (783)	\$ 0	\$ 783	\$ 0
2005 Mecosta	(412)	(412)	0	0	0
2005 Osceola	(1,736)	(1,736)	0	0	0
2006	73,360	4,627	0	73,171	(4,438)
2007	13,040	0	0	5,023	8,017
2008	0	0	286,434	316,429	(29,995)
	84,252	1,696	286,434	395,406	(26,416)
JARC 2006-2007	5,454	1,884	0	3,570	0
JARC 2007-2008	0	0	38,562	15,589	22,973
	5,454	1,884	38,562	19,159	22,973
Federal Section 5311					
02-0067/Z16 Mecosta	399	399	0	0	0
02-0097/Z8 Osceola	394	394	0	0	0
06-0058/Z1	10,109	0	0	0	10,109
07-0257/Z2	12,109	0	0	11,437	672
RTAP-07/08	0	0	1,893	1,893	0
07-0257/Z5	0	0	83,248	65,841	17,407
	23,011	793	85,141	79,171	28,188
Total Operating Assistance	112,717	4,373	410,137	493,736	24,745
Capital Grant					
06-0058/Z3	20,288	0	0	20,288	0
06-0058/Z6	0	0	23,215	23,215	0
06-0058/Z7	0	0	23,159	23,159	0
07-0257/Z3	0	0	24,415	24,415	0
	20,288	0	70,789	91,077	0
TOTAL FEDERAL AND STATE GRANTS	\$ 133,005	\$ 4,373	\$ 480,926	\$ 584,813	\$ 24,745

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	JOB ACCESS AND REVERSE				
	COMMUTE		RTAP	OPERATIONS	TOTAL
Labor	\$ 16,577		\$ 0	\$ 231,556	\$ 248,133
Fringe Benefits	6,579		0	84,718	91,297
Services	2,895		0	60,652	63,547
Materials and Supplies	6,630		0	105,960	112,590
Utilities	1,091		0	15,651	16,742
Casualty and Liability Costs	1,529		0	15,688	17,217
Miscellaneous Expenses	2,954		1,893	9,876	14,723
Depreciation	10,187		0	125,978	136,165
TOTAL EXPENSES	\$ 48,442		\$ 1,893	\$ 650,079	\$ 700,414

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>FEDERAL - SECTION 5311 07-0257/Z5</u>	<u>STATE OPERATING</u>
Operating Expenses		
Labor	\$ 231,556	\$ 231,556
Fringe Benefits	84,718	84,718
Services	60,652	60,652
Materials and Supplies	105,960	105,960
Utilities	15,651	15,651
Casualty and Liability Costs	15,688	15,688
Miscellaneous Expenses	9,876	9,876
Depreciation	<u>125,978</u>	<u>125,978</u>
Total Expense	<u>650,079</u>	<u>650,079</u>
Less Ineligible Expenses		
Depreciation	122,365	122,365
Association Dues	49	49
Audit Fees	<u>6,165</u>	<u>0</u>
Total Ineligible Expenses	<u>128,579</u>	<u>122,414</u>
Eligible Expenses	521,500	527,665
Less Project Revenue		
Propane Sales	<u>1,199</u>	<u>1,199</u>
NET ELIGIBLE EXPENSES	<u><u>\$ 520,301</u></u>	<u><u>\$ 526,466</u></u>
Federal		
Section 5311		
Reimbursement (16.00%)	<u><u>\$ 83,248</u></u>	
State Statutory Operating Assistance		
36.1508% of Net Eligible Expenses		<u><u>\$ 190,322</u></u>
But at Least a Minimum of Its: 1997 Floor		<u><u>\$ 286,434</u></u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NONURBAN REGULAR SERVICE REVENUE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Code	Description	Amount
401 :	Farebox Revenue	
40100	Passenger Fares	\$ 26,013
40200	Contract Fares	206,479
40400	Package Delivery	496
407 :	NonTrans Revenues	
40710	Sales of Maintenance Services	1,422
40760	Gains from the Sale of Capital Assets	0
40799	Other NonTrans Revenue	448
411 :	State Formula and Contracts	
41101	State Operating Assistance	286,434
41199	Other State Contracts and Reimbursements	0
413 :	Federal Contracts	
41301	Federal Section 5311	83,248
41398	RTAP	1,893
41399	Other FTA Contracts & Reimbursements	0
414 :	Other Revenue	
41400	Interest Income	6,022
Total Revenue		<u><u>\$ 612,455</u></u>

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

NONURBAN REGULAR SERVICE EXPENSE REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Code	Description	Operations	Maintenance	Gen. Admin	Amount
501 :	Labor				
50101	Operators Salaries & Wages	\$ 141,367	\$ 0	\$ 0	\$ 141,367
50102	Other Salaries & Wages	0	8,921	45,074	53,995
50103	Dispatchers' Salaries & Wages	36,194	0	0	36,194
502 :	Fringe Benefits				
50200	Other Fringe Benefits	77,800	1,090	5,828	84,718
503 :	Services				
50305	Audit Cost	0	0	5,872	5,872
50399	Other Services	1,347	50,015	3,418	54,780
504 :	Materials and Supplies				
50401	Fuel & Lubricants	84,197	0	0	84,197
50402	Tires & Tubes	2,504	0	0	2,504
50499	Other Materials & Supplies	11,705	2,016	5,538	19,259
505 :	Utilities				
50500	Utilities	0	0	15,651	15,651
506 :	Insurance				
50603	Liability Insurance	15,688	0	0	15,688
509 :	Misc Expenses				
50902	Travel, Meetings & Training	225	0	5,122	5,347
50903	Association Dues & Subscriptions	0	0	1,096	1,096
50999	Other Misc Expenses	4,197	0	1,129	5,326
513 :	Depreciation				
51300	Depreciation	120,827	1,785	3,366	125,978
550 :	Ineligible Expenses				
55007	Ineligible Depreciation	117,668	1,439	3,258	122,365
55009	Ineligible Percent of Association Dues	0	0	49	49
560 :	Ineligible Expenses				
56001	Ineligible Expenses Associated w/Sale of Maintenance Service	1,199	0	0	0 1,199
574 :	Ineligible Expenses				
57402	Ineligible RTAP	0	0	1,893	1,893
Total Expenses					651,972
Total Ineligible Expenses					125,506
Total Eligible Expenses					\$ 526,466

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NONURBAN JOB ACCESS SERVICE REVENUE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Code	Description	Amount
411 :	State Formula and Contracts	
41199	Other State Contracts and Reimbursements	\$ 18,713
413 :	Federal Contracts	
41399	Other FTA Contracts & Reimbursements	19,849
Total Revenue		<u><u>\$ 38,562</u></u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NONURBAN JOB ACCESS SERVICE EXPENSE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Code	Description	Operations	Maintenance	Gen. Admin	Amount
501 :	Labor				
50101	Operators Salaries & Wages	\$ 10,344	\$ 0	\$ 0	\$ 10,344
50102	Other Salaries & Wages	0	619	3,014	3,633
50103	Dispatchers' Salaries & Wages	2,600	0	0	2,600
502 :	Fringe Benefits				
50200	Other Fringe Benefits	5,933	78	568	6,579
503 :	Services				
50305	Audit Cost	0	0	293	293
50399	Other Services	81	2,267	254	2,602
504 :	Materials and Supplies				
50401	Fuel & Lubricants	4,757	0	0	4,757
50402	Tires & Tubes	417	0	0	417
50499	Other Materials & Supplies	1,184	63	209	1,456
505 :	Utilities				
50500	Utilities	0	0	1,091	1,091
506 :	Insurance				
50603	Liability Insurance	1,529	0	0	1,529
509 :	Misc Expenses				
50902	Travel, Meetings & Training	0	0	307	307
50903	Association Dues & Subscriptions	0	0	66	66
50999	Other Misc Expenses	2,239	0	342	2,581
513 :	Depreciation				
51300	Depreciation	9,639	256	292	10,187
550 :	Ineligible Expenses				
55007	Ineligible Depreciation	9,333	229	286	9,848
560 :	Ineligible Expenses				
56001	Ineligible Expenses Associated w/Sale of Maintenance Service	32	0	0	32
Total Expenses					48,442
Total Ineligible Expenses					9,880
Total Eligible Expenses					\$ 38,562

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

VEHICLE HOURS AND PASSENGERS
YEAR ENDED SEPTEMBER 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2007

(UNAUDITED)

	2008				2007
	WEEKDAY	SATURDAY	SUNDAY	TOTAL	TOTAL
<u>VEHICLE HOURS</u>					
First Quarter	2,086	0	0	2,086	2,219
Second Quarter	2,372	0	0	2,372	2,116
Third Quarter	2,489	0	0	2,489	2,133
Fourth Quarter	2,495	0	0	2,495	2,190
Total	9,442	0	0	9,442	8,658

	2008				2007
	REGULAR PASSENGER	SENIOR PASSENGER	HANDICAPPED PASSENGER	TOTAL	TOTAL
<u>PASSENGERS</u>					
First Quarter	647	94	11,097	11,838	11,757
Second Quarter	795	83	10,673	11,551	11,386
Third Quarter	855	95	12,175	13,125	12,267
Fourth Quarter	981	85	12,736	13,802	13,004
Total	3,278	357	46,681	50,316	48,414

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2008

(UNAUDITED)

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2008. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

	WEEKDAY	SATURDAY	SUNDAY	TOTAL PUBLIC TRANSPORTATION MILEAGE
<u>DEMAND-RESPONSE</u>				
Quarter Ended:				
December 31, 2007	52,616	0	0	52,616
March 31, 2008	57,334	0	0	57,334
June 30, 2008	60,283	0	0	60,283
September 30, 2008	62,153	0	0	62,153
TOTAL	232,386	0	0	232,386

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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October 29, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Mecosta Osceola Transit Authority
Big Rapids, Michigan

We have audited the accompanying financial statements of the Mecosta Osceola Transit Authority, Big Rapids, Michigan, as of and for the year ended September 30, 2008, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mecosta Osceola Transit Authority, Big Rapids, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of considered the Mecosta Osceola Transit Authority, Big Rapids, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mecosta Osceola Transit Authority, Big Rapids, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Authority makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties and have taken measures of management oversight to help compensate for this limitation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Of the significant deficiencies described above, we consider number 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mecosta Osceola Transit Authority, Big Rapids, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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October 29, 2008

Mecosta Osceola Transit Authority
Big Rapids, Michigan

We have audited the financial statements of the business type activities of Mecosta Osceola Transit Authority Township for the year ended September 30, 2008, and have issued our report thereon dated October 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 16, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Mecosta Osceola Transit Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mecosta Osceola Transit Authority are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted. We did propose several adjusting journal entries that were accepted and recorded by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of Mecosta Osceola Transit Authority for the year ended September 30, 2008, we noted no items which we feel deserve comment that were not previously communicated to the Transit Authority, either verbally or through other written communication.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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